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Bell Canada  
Annual Report  
1973









In the beginning, a hundred years ago, not even the genius of Alexander Graham Bell could have foreseen the significance of the telephone to a young and growing nation. Now a true national asset, the industry to which this invention gave birth has brought Canadians closer to one another and to the world.

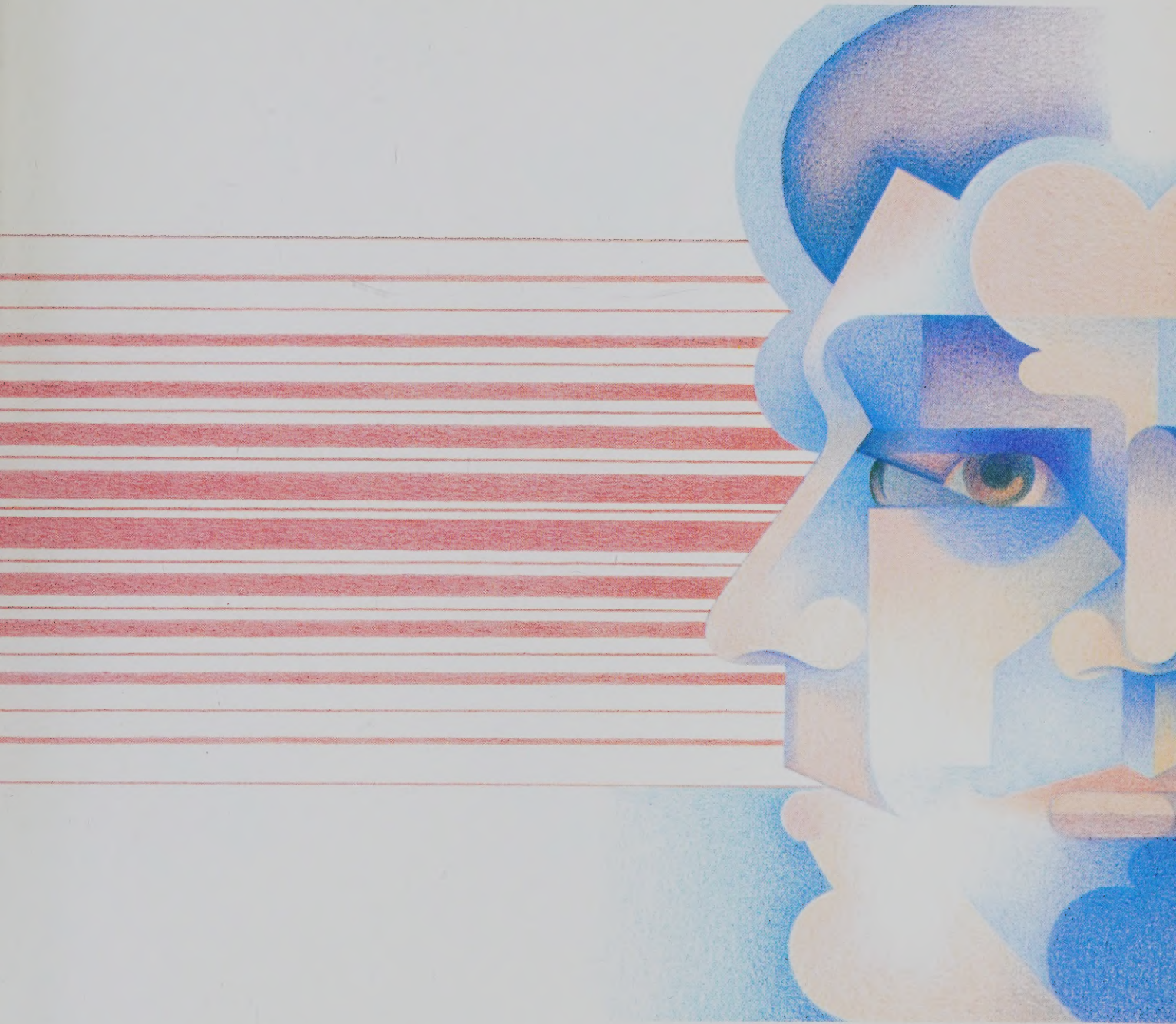
Bell Canada is a company owned by Canadians for the benefit of Canadians. Many of its 43,000 employees are among its 238,000 shareowners, 97.8 percent of whom are residents of Canada.





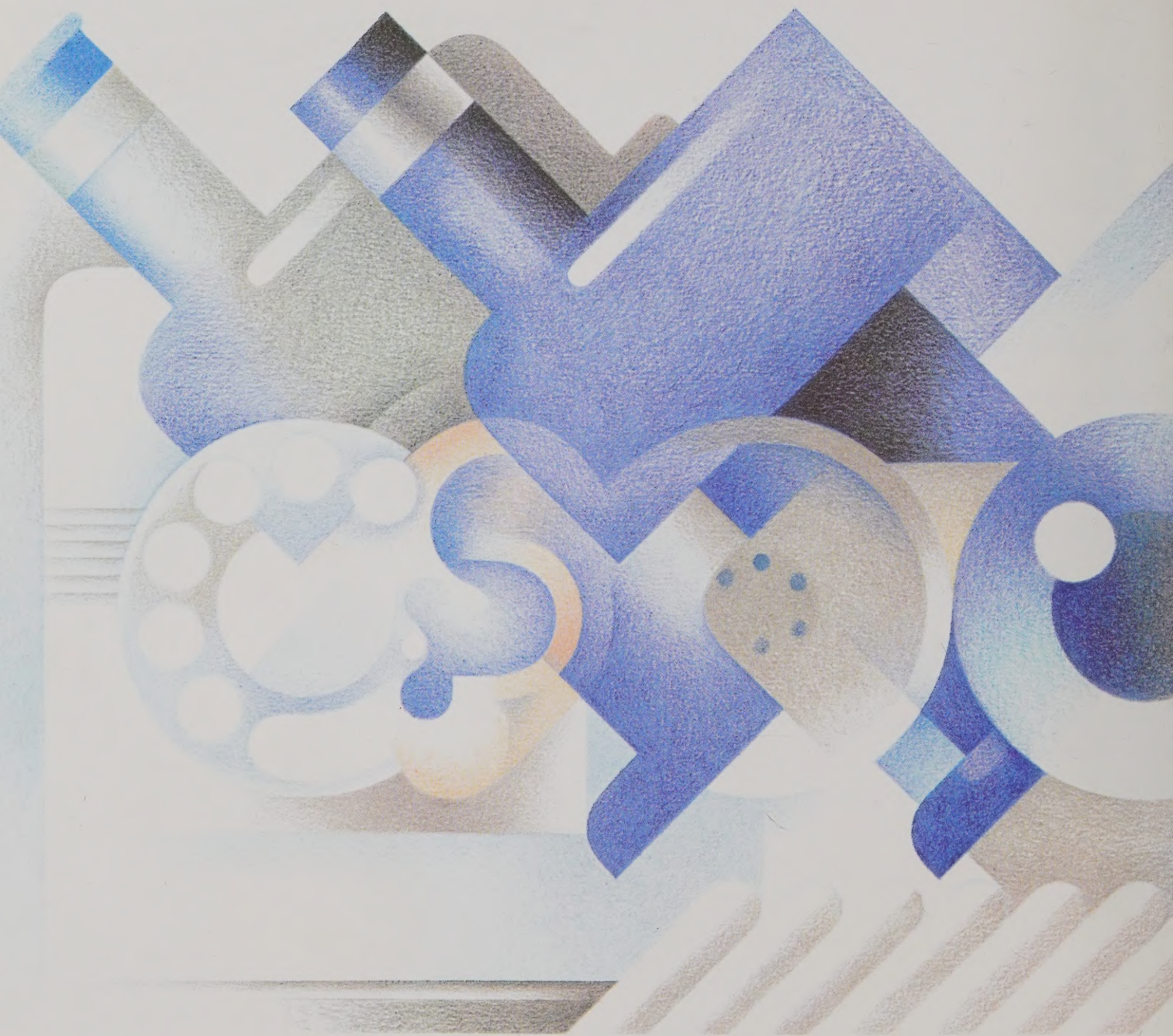
From its inception, the telephone has linked the minds of men and, in the process, had a profound influence on the pattern and tempo of the times.





Today reliable telephone service is available everywhere in our territory, even in the Arctic. There, thanks to a new family of Bell-Northern microwave systems linking our network with Anik I, communities like Frobisher Bay, Resolute Bay and Pangnirtung use the satellite instead of depending on radio signals bouncing over the barrens.





Today, as in 1874, research is opening new frontiers. Bell-Northern Research, one of the most advanced telecommunications research and development centres in the world, is committed to the expansion of communications technology in ways that will continue to be useful to the people we serve.



## Financial Highlights

**Bell Canada**  
Ninety-fourth Annual Report  
Year ended December 31, 1973

Sur demande, le secrétaire vous  
fera volontiers parvenir un exem-  
plaire français du rapport annuel.

	1973	1972	% increase
Revenues (thousands of dollars)			
operating revenues .....	\$1,487,808	\$1,301,058	14.4
sales .....	613,772	535,025	14.7
total .....	2,101,580	1,836,083	14.5
Net income (thousands of dollars) .....	205,371	175,486	17.0
per common share .....	5.18	4.41	17.5
assuming full conversion of convertible preferred shares .....	4.99	4.30	16.0
Dividends per common share .....	2.85	2.65	7.5
Equity per common share .....	47.79	45.30	5.5
(at December 31)			



## Directors

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W.M. Vacy Ash, O.C.

Toronto, Ontario  
Company Director  
Elected March 10, 1966  
Chairman of the Pension  
Fund Policy Committee

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Marcel Bélanger, C.A.

Quebec, Quebec  
Partner, Bélanger, Dallaire,  
Gagnon & Associés  
Elected March 20, 1969  
Chairman of the Audit Committee and a  
member of the Management Resources  
and Salary Committee

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J. Laurénc Black

Sackville, New Brunswick  
Chairman, The New Brunswick  
Telephone Company, Limited  
Elected March 16, 1967  
Retired April 3, 1973

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Henry Borden, O.C., C.M.G., Q.C.

Toronto, Ontario  
Company Director  
Appointed January 28, 1948  
A member of the Executive Committee  
and of the Pension Fund Policy Committee

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A. Jean de Grandpré, Q.C.

Montreal, Quebec  
President, Bell Canada  
Appointed July 26, 1972  
A member, ex officio, of the Executive,  
the Audit and the Social and Environmental  
Affairs Committees

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J. Douglas Gibson, O.B.E.

Toronto, Ontario  
Economic Consultant  
Elected March 25, 1970  
A member of the Management Resources  
and Salary Committee and of the Pension  
Fund Policy Committee

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Helen S. Hogg, O.C.

Richmond Hill, Ontario  
Professor and Research Associate,  
University of Toronto  
Elected March 21, 1968  
A member of the Social and Environmental  
Affairs Committee

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James W. Kerr

Toronto, Ontario  
Chairman and Chief Executive Officer,  
TransCanada PipeLines Limited  
Appointed August 26, 1970  
A member of the Management Resources  
and Salary Committee

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Herbert H. Lank

Montreal, Quebec  
Company Director  
Appointed April 27, 1960  
A member of the Executive Committee  
and Chairman of the Management Resources  
and Salary Committee

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Walter F. Light

Montreal, Quebec  
Executive Vice-President,  
Bell Canada  
Elected April 3, 1973  
Resigned September 25, 1973

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John C. Lobb

Montreal, Quebec  
President and Chief Executive Officer,  
Northern Electric Company, Limited  
Appointed October 24, 1973  
A member of the Executive Committee

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Vernon O. Marquez

Montreal, Quebec  
Chairman and Chief Executive Officer,  
Northern Electric Company, Limited  
Appointed July 1, 1969  
Resigned September 30, 1973  
A member of the Executive Committee

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Donald McInnes, Q.C.

Halifax, Nova Scotia  
Senior Partner, McInnes,  
Cooper & Robertson  
Elected March 16, 1967  
A member of the Pension Fund Policy  
Committee

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Kenneth G. McKay

New York, New York  
Vice-President,  
American Telephone & Telegraph Co.  
Appointed December 1, 1966  
Resigned April 3, 1973

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E. Neil McKelvey, Q.C.

Saint John, New Brunswick  
Partner, McKelvey, Macaulay,  
Machum & Fairweather  
Elected April 3, 1973  
A member of the Audit Committee

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John H. Moore

London, Ontario  
President, Brascan Limited  
Elected March 10, 1966  
A member of the Executive Committee  
and of the Audit Committee

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Arthur S. Pattillo, Q.C.

Toronto, Ontario  
Partner, Blake, Cassels & Graydon  
Appointed January 26, 1966  
A member of the Management Resources  
and Salary Committee

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Gérard Plourde

Montreal, Quebec  
Chairman of the Board and Chief  
Executive Officer,  
U A P Inc.  
Appointed January 1, 1973  
A member of the Executive Committee

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Louis Rasminsky, C.C., C.B.E.

Ottawa, Ontario  
Chairman of the Board of Governors,  
International Development Research Centre  
Appointed September 26, 1973  
A member of the Pension Fund Policy  
Committee

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The Hon. John P. Robarts, P.C., C.C., Q.C.

London, Ontario  
Member of Robarts, Betts, McLennan  
& Flinn, London  
and of Stikeman, Elliott, Robarts &  
Bowman, Toronto  
Appointed June 23, 1971  
A member of the Pension Fund Policy  
Committee

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H. Locke Robertson, C.C.

Ottawa, Ontario  
Former Principal and  
Vice-Chancellor, McGill University  
Elected July 8, 1965  
Chairman of the Social and Environmental  
Affairs Committee

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Lucien G. Rolland

Montreal, Quebec  
President and General Manager,  
Rolland Paper Company, Limited  
Elected July 8, 1965  
A member of the Audit Committee

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Robert C. Scrivener

Montreal, Quebec  
Chairman of the Board and  
Chief Executive Officer,  
Bell Canada  
Appointed November 1, 1967  
A member, ex officio, of the Executive,  
the Audit and the Social and Environmental  
Affairs Committees

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Livia M. Thür

Ottawa, Ontario  
formerly Vice-President (Academic),  
Université du Québec at Trois-Rivières  
Elected April 6, 1971  
A member of the Social and Environmental  
Affairs Committee

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## Report of the Directors

After a hundred years of continuous development, the telecommunications industry in Canada remains creative and dynamic. As we approach the centennial celebration of the telephone's invention in Brantford, Ontario, in 1874, change and innovation are apparent in every sphere of your Company's activity.

### Consolidated Financial Results

Bell Canada's financial statements are presented in this Annual Report to the Shareholders on a consolidated basis. This is the initial presentation of consolidated statements and it conforms with the new recommendations of the Canadian Institute of Chartered Accountants and to the requirements of provincial securities acts. The 1972 figures have been restated on a comparable basis. The accounts of all companies in which Bell Canada owns more than 50 per cent of their outstanding common shares have been included in the consolidated financial statements, beginning on page 9.

1973 was a year of progress. Revenues, net income and earnings per share reached record levels, reflecting a buoyant economic environment throughout the year. Dividends declared per Bell Canada common share in 1973 increased 20 cents, or 7.5 per cent, to \$2.85.

Consolidated earnings per common share in 1973, at \$5.18, improved 17.5 per cent over 1972. Assuming full conversion of convertible preferred shares, earnings per common share were \$4.99 in 1973 compared to \$4.30 in 1972. Shareholders' equity at 1973 year-end was \$47.79 per common share, compared to \$45.30 the previous year.

While consolidated results provide a broad overview of corporate performance, a review of the main operating companies provides information that is pertinent and necessary to a fuller understanding of the total enterprise. The following sections deal with these companies.

### Bell Canada

Bell Canada's financial performance in 1973 paralleled the significant improvements recorded in the consolidated results. Non-consolidated earnings per common share in 1973 were \$4.52, an increase of 9.7 per cent over the \$4.12 earned in 1972. This included an extraordinary income item of 15 cents per

common share, resulting from interest on Federal and Province of Ontario income tax reassessments applicable to 1964 - 1969. Assuming full conversion of convertible preferred shares, Bell's earnings per common share, including the extraordinary item, amounted to \$4.40.

Operating revenues for the year were \$1,275.2 million, an increase of 13.3 per cent over 1972, reflecting a \$68.4 million increase in local service revenues and an \$87.2 million increase in revenues from long distance service. The rate of growth in long distance calling in 1973 significantly outpaced earlier corporate forecasts, based on government and industry indices, which also exceeded initial projections.

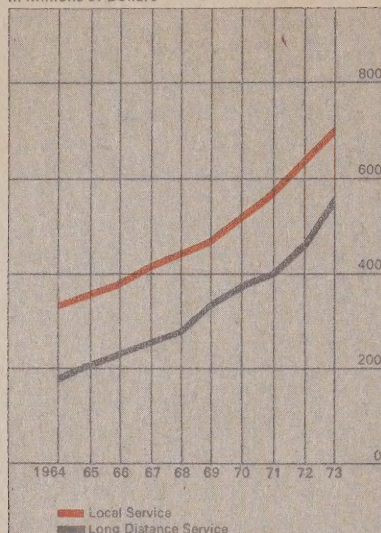
Operating expenses, at \$801.2 million, rose 12.4 per cent in 1973, due mainly to increases of approximately \$40 million in employee wages, benefits and pensions and about \$29 million in depreciation expense.

Income taxes, at \$149.8 million, increased \$23.0 million over 1972 as a result of the change in the income tax rate from 48.5 per cent in 1972 to 51.0 per cent in 1973 and increased earnings subject to tax. Other taxes in 1973 increased by \$20.8 million, due largely to increases in the Ontario Gross Receipts Tax and the Quebec Net Revenue Tax.

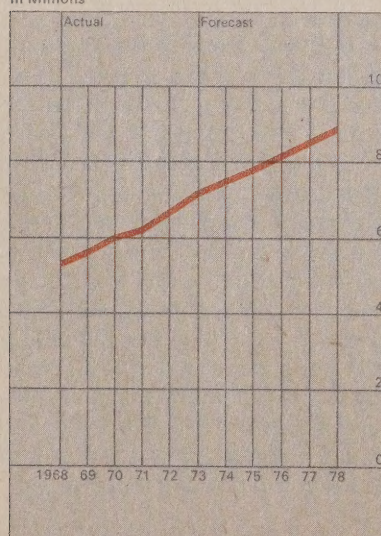
A \$14.5 million increase in interest charges in 1973 reflected the full-year effect of bonds issued in 1972 and those issued in 1973. Interest rates on new bonds issued in 1972 and 1973 are significantly higher than the rate of interest on bonds redeemed in those years.



Bell Canada-Non-Consolidated  
Local and Long Distance Revenues  
in Millions of Dollars



Bell Canada-Non-Consolidated  
Company Telephones in Service  
in Millions



**Organization for Improved Service**  
Regionalization, a program of decentralization launched in 1970 with the aim of making Bell Canada operations more directly responsive to the needs of its customers, advanced in 1973 and is expected to be largely completed in 1974.

Bell Canada is now organized in three regions: Eastern, which covers most of Quebec and part of the Northwest Territories; Western, which covers Ontario and a small area of Quebec around Hull; and the Computer Communications & Network Services, a functional region which provides telecommunications facilities to computer users and manages the basic long distance network.

The decentralization of operational and supportive staff functions and the consolidation of these functions into an operating staff in each of the three regions are designed to create a more efficient organization better positioned to respond faster and more appropriately to local needs. The regional staffs will have primary responsibility for decisions that recognize local opportunities, reduce costs and raise operating efficiency. Centralized control will remain with corporate Headquarters staff in matters of Company-wide policy, long range planning and such corporate functions as, for example, finance and regulatory matters.

#### Computer Communications

In 1973, its first full year of operation, the Computer Communications Group of Bell Canada introduced Dataroute, the world's first nationwide digital data service available on a commercial basis. Key to The Dataroute is its use of digital technology. It transmits data entirely in the language of the computer and data terminal, which results in greater accuracy and reliability of data communications at lower prices to users than pre-Dataroute systems.

Also planned is an "intelligent" network for data communications, being developed by Bell's Computer Communications Group for the Trans-Canada Telephone System. Using an entirely new application of technology called packet switching, the network will be able to adapt readily to the changing and complex needs of computer communications users in Canada. The early announcement of the intention to build the network was made to give users the maximum possible lead time in determining their future communications needs. It is expected that the first major application for the new network will be in the banking and financial industry. This application could result in a streamlined electronic banking system, allowing instant transactions at any bank in the country as well as instant inter-bank transactions. Present plans indicate that the initial phase of the banking application will be operational by late 1975.

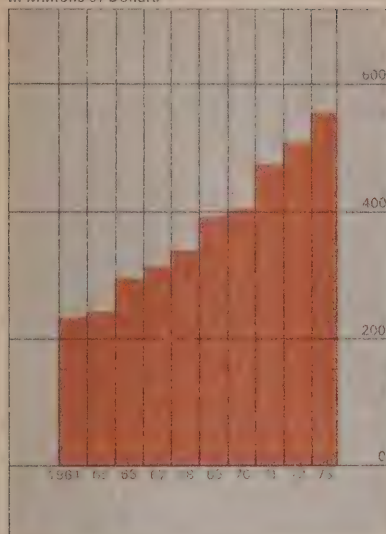
#### Rate Regulation

In November 1972, Bell filed, with the Canadian Transport Commission, two separate applications for increased rates: one, Application "A", relating to 1973, and the other, Application "B", relating to 1974. On March 30, 1973, the Commission authorized rate adjustments which would have produced, if in effect beginning in April, about \$22 million in additional revenues in 1973. However, following a review by the Federal Government, implementation of the revised rate schedules was delayed until July 3, and the approved increase in service charges was eliminated. As a result, the amount added to revenues in 1973 was reduced to about \$12 million.

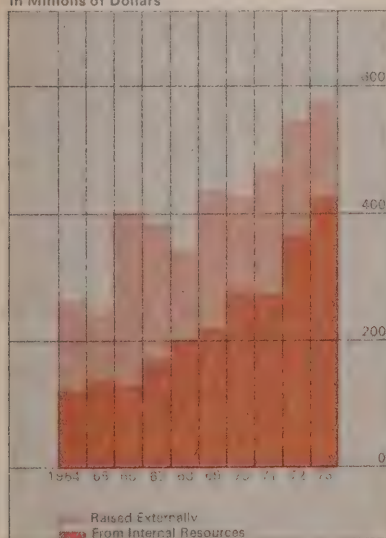
In August, the Company announced reductions in the scale of telephone rate increases proposed in the original Application "B". Bell reduced from \$85.2 million to \$51.8 million the additional revenues it is estimated will be needed to produce a rate of return on average total capital in 1974 that will permit the Company to compete economically for



Bell Canada-Non-Consolidated  
Construction Expenditures  
in Millions of Dollars



Bell Canada-Non-Consolidated  
Capital Requirements  
in Millions of Dollars



funds in the capital markets. The buoyancy of the economy and its impact on Bell's revenue forecasts were the main reasons for the \$33.4 million reduction in the Company's rate request. Public hearings, which began February 4 in Ottawa, are also being held in Montreal, Toronto, and the Far North.

Timely increases in telephone charges, which enable the Company to keep pace with the inflationary rise in operating costs, increased capital costs and higher taxes, are necessary to maintain Bell's ability to provide the quantity and quality of services its customers require. Such increases are essential to attract the money needed to support our capital investment program by ensuring an adequate return to shareholders who have invested part of their savings in the Company.

#### Financing

During the year, first mortgage bonds amounting to \$155 million were issued. A \$50 million issue of First Mortgage 8% bonds, Series BA, priced to yield 8.05% to the investor, with maturity in 1997, was issued in February. Three series of First Mortgage bonds were issued in the second quarter: \$40 million (U.S.), 7% bonds, Series BB, dated April 1, 1973, maturing in the years 1994-2003 inclusive; \$15 million, 7% bonds, Series BC, dated May 1, 1973, maturing in the year 1981; and \$50 million, 8% bonds, Series BD, dated May 1, 1973, maturing in the year 1994. A \$51 million preferred stock issue of \$2.25 cumulative redeemable voting preferred shares of the par value of \$30 each, and yielding 7.50%, was sold in October. These shares are non-redeemable prior to October 1, 1983, and are not convertible into common shares.

#### Service Growth

Demand for services grew substantially in 1973. At year-end, the Company had more than 7.1 million telephones in

service. More than 360,000 telephones were added to the Bell network in 1973. To achieve this net growth, 1.9 million telephones were connected and 1.5 million disconnected. Local telephone calls processed by Bell were 9.8 billion in the year. Long distance calls, at 395.9 million, increased by 12.8 per cent over 1972.

#### Capital Expenditures

Approximately \$554.2 million was spent by Bell Canada in 1973 to meet growth requirements in anticipation of customer demand, to modernize service and improve the Company's physical plant, to relocate services of moving customers and to replace outworn or damaged facilities.

About \$356.7 million, or 64.4 per cent of the total capital budget, was spent to improve our ability to meet future growth. \$80.7 million was spent to modernize service and improve plant. The cost of relocating services for residential and business customers who moved during 1973 amounted to \$82.6 million. Replacement of damaged or outworn equipment cost about \$34.2 million.

Bell Canada's ability to serve well in the future will require continuing large annual capital investments. The Company is confident that the regulatory process will recognize these needs and that no action will be taken by the Federal or Provincial governments which will reduce the high standard of service to which our customers have been accustomed and which is so important to the growth of the economy.



### **Affiliated Company Activity**

#### *Northern Electric Company, Limited*

Northern Electric reported record consolidated sales for 1973 of \$612.8 million and net earnings after tax of \$32 million, compared to \$20.1 million in 1972. Earnings per share, based on the weighted average number of shares outstanding, were \$1.35 in 1973 compared to 85 cents in 1972.

These results were achieved in spite of a net loss of \$10.2 million in Microsystems International Limited, a 68.5 per cent-owned subsidiary, and a major manufacturer of semi conductors and integrated circuits for the computer and telecommunications industries.

In December, Northern Electric made an initial public offering of 2.6 million common shares from treasury. As a result, Bell's shareholding in Northern Electric is now 90.1 per cent of total outstanding shares. Priced to the public at \$15 per share, the issue produced \$36.8 million after issue expenses. The new capital will assist Northern Electric in expanding to meet growing telecommunications markets in Canada, the United States and offshore.

Northern Electric is a major supplier of communications equipment to other Canadian telephone companies as well as to Bell Canada. Northern Telecom, Inc., a wholly-owned Northern Electric subsidiary with headquarters in Boston, Massachusetts, manufactures and markets telecommunications equipment in the United States.

As part of its approach to the European Economic Community markets, Northern Electric, in April, 1973, incorporated Northern Electric Company (Ireland) Limited to manufacture telephone equipment. Plessey Telecommunications Limited, of England, has been licensed by Northern Electric to manufacture and sell products in the United Kingdom and other designated countries.

#### *Bell-Northern Research Ltd.*

Bell-Northern Research continued its efforts to provide designs for new products and systems. The results will broaden the choice of services for telephone users and reduce the costs of operating communications systems. Systems studies were carried out in long distance and non-urban services as well as in data, "broadband" and other business service offerings to provide a planning base for the further evolution of the network. The Company made substantial progress in consumer-oriented behavioural and product research and enlarged the scope of its services to Canadian industry by undertaking systems engineering studies for various government agencies and telephone administrations.

Exploratory research work was undertaken during 1973 in processes and devices which make possible low-cost, high-density electronic memories for telephone switching systems. Communication by transmission of light pulses through glass fibres was demonstrated, opening the way to much needed reductions in ducting space requirements as demand increases for communications growth in crowded locations. The products which will eventually incorporate these advances will enhance the performance of Canadian telecommunications.

#### *Telephone Companies*

Bell Canada's affiliated telephone companies continued to grow in 1973, recording increased demand for services and improvements in earnings.

#### *The New Brunswick Telephone Company, Limited*

The substantial growth of New Brunswick's telecommunications requirements made 1973 one of the most challenging in NBTel's 85 years of operation. Operating revenues at \$55.4 million, gained 11.7 per cent over 1972. Net income for 1973 amounted to approximately \$8.0 million, compared to \$7.5 million the previous year. Earnings per common share were \$1.60, a 3.2 per cent increase over the \$1.55 per share reported in 1972. Local and long distance messages handled during the year increased significantly and a record net increase

in the number of telephones in service was established. Capital expenditures to meet demands for service and future growth reached \$29.7 million. More than \$4.7 million was spent on expanding and upgrading service outside the urban areas. NBTel is 50.1 per cent-owned by Bell Canada.

#### *Northern Telephone Limited*

Service and revenue increases were recorded in 1973 by Northern Telephone Limited, a 98.3 per cent-owned subsidiary, which provides telecommunications services to most municipalities in Northern Ontario and, through a subsidiary, Northern Quebec Telephone Inc., to areas in the northern part of the Province of Quebec. Operating revenues in 1973 amounted to \$18.6 million, compared to \$15.4 million in 1972, and 1973 net income at \$2.1 million, improved 3.7 per cent over the previous year.

#### *Newfoundland Telephone Company Limited*

The accelerated demand for telecommunications services in Newfoundland throughout 1973 helped to maintain the high rate of growth the Newfoundland Telephone Company has experienced in the past several years. The Company is 99.8 per cent-owned by Bell Canada. Operating revenues in 1973 reached \$26.2 million, a 17.9 per cent increase over the previous year. Net income amounted to \$3.8 million in 1973 compared to \$3.6 million in 1972. The total number of telephones in the system grew by more than 12 per cent in 1973 and long distance messages increased 16 per cent over 1972. The proportion of dial telephones in the system rose to 98.7 per cent. The few remaining communities still unserved within the island portion of Newfoundland Telephone operating territory are scheduled to receive service early in 1974. By year-end, the Company, with the approval of the Board of Commissioners of Public



Utilities of the Province of Newfoundland, had negotiated the purchase of Bell Canada's telecommunications assets in Labrador. Object of the purchase was to align Labrador communications more closely with those of the island portion of the Province of Newfoundland.

*Maritime Telegraph and Telephone Company, Limited*

MT&T, which provides telecommunications services in Nova Scotia and, through a subsidiary, in Prince Edward Island, continued to improve and expand services in 1973. At year-end Bell Canada owned, without voting control, 51.8 per cent of the outstanding common shares and 5.9 per cent of the outstanding 7% cumulative preferred shares of MT&T. 1973 earnings per common share were \$1.94. At year-end, the Company recorded an 8.0 per cent net gain in the number of telephones in use. Dial service was extended and service to non-urban customers was improved. Approximately \$48.3 million was expended during the year to modernize service, improve the Company's physical plant and meet growth requirements in anticipation of customer demand.

*Board of Directors*

In September, V.O. Marquez resigned from Bell Canada's Board of Directors coincident with his retirement as Chairman and Chief Executive Officer of Northern Electric Company, Limited. Appointed to the Board of Directors during 1973 were Louis Rasminsky, C.C., C.B.E., Ottawa, former Governor of the Bank of Canada, replacing Walter F. Light, and John C. Lobb, President of Northern Electric, who succeeded Mr. Marquez as Chief Executive Officer of that Company.

During 1973, the Board of Directors met each month; members attended additional special meetings as required. In addition to meetings of the full Board, the Directors were involved in meetings of one or more of the Board's working sub-committees. The Executive Committee meets each month, while the Audit Committee, the Pension Fund Policy Committee and the Management

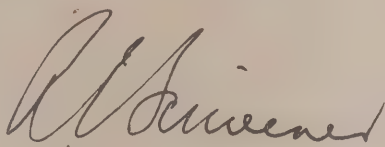
Resources and Salary Committee normally convene on a quarterly basis. The Social and Environmental Affairs Committee, formed in 1973, held seven meetings during its first year of operation.

Arnold J. Groleau, Executive Vice-President (Administration) and George C. Wallace, Vice-President (Finance), retired during 1973. G.L. Henthorn, Comptroller, was appointed Vice-President and Comptroller. H. Bowlër joined the Company and was appointed Vice-President (Finance). J.V.R. Cyr, General Plant Manager, (Special Assignment), Eastern Area, was appointed Vice-President - Operations Staff, Eastern Region.

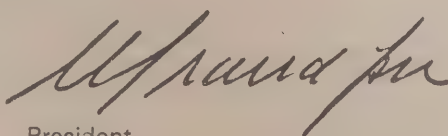
The progress achieved in 1973 was the direct result of the goodwill and co-operation of the public combined with the outstanding performance and loyalty of Bell Canada people.

The Directors take this opportunity to extend their thanks and appreciation to the shareholders, employees and the public for their support throughout the year.

For the Board of Directors,



Chairman



President

February 27, 1974



## Officers

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**Chairman of the Board and  
Chief Executive Officer**  
Robert C. Scrivener

---

**President**  
A. Jean de Grandpré, Q.C.

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**Executive Vice-Presidents**  
René Fortier  
    Eastern Region  
Z. Henry Krupski  
    Computer Communications &  
    Network Services  
Walter F. Light  
    Operations  
James C. Thackray  
    Western Region

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**Vice-Presidents**  
Wilfred D.E. Anderson  
    Engineering and Planning  
Harry Bowler  
    Finance  
Robert W. Crowley  
    Western Area  
J.V. Raymond Cyr  
    Operations Staff, Eastern Region  
Claude Duhamel  
    Administration, Eastern Region  
Jean-Paul Gagnon  
    Montreal Area  
Charles A. Harris  
    Public and Environmental Affairs  
George L. Henthorn  
    Comptroller  
Frederick E. Ibey  
    Operations Staff, Western Region  
Gordon E. Inns  
    Computer Communications  
Palle Kiar  
    Central Area  
John A. McCutcheon  
    Operational Staff  
J. Léonce Montambault  
    Eastern Area  
Lawrence J. O'Keefe  
    Systems  
Harry Pilkington  
    Toronto Area  
Hubert A. Roth  
    Operational Staff  
John E. Skinner  
    Personnel  
John F. Stinson  
    Network Services  
Orland Tropea  
    Regulatory Matters  
Robert N. Washburn  
    Administration, Western Region

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**Treasurer**  
Harold E. Harris

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**General Counsel**  
Guy Houle

---

**Secretary**  
James T. Moore

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**Retirements during 1973**  
Arnold J. Grôleau  
    Executive Vice-President  
    Administration  
George C. Wallace  
    Vice-President Finance

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**Promotions within and to  
the Officer Rank**  
George L. Henthorn  
    Vice-President and Comptroller  
J.V. Raymond Cyr  
    Vice-President

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## Consolidated Income Statement

	(thousands of dollars)	
	Year 1973	Year 1972
<b>Revenues</b>		
Operating revenues		
Local service	\$ 776,678	\$ 700,893
Long distance service	643,421	541,758
Miscellaneous (net)	67,709	58,407
	1,487,808	1,301,058
Sales – Manufacturing and distributing	613,772	535,025
	2,101,580	1,836,083
Operating Expenses and Cost of Sales (Note 2)	1,573,875	1,373,489
	527,705	462,594
Other Income (Note 3)	21,692	10,167
<b>Income before Underlisted Items</b>	<b>549,397</b>	<b>472,761</b>
Interest Charges		
Interest on long term debt	131,319	115,099
Other interest	5,483	2,773
	136,802	117,872
<b>Income before Income Taxes, Minority Interest and Extraordinary Items</b>	<b>412,595</b>	<b>354,889</b>
Income Taxes	206,540	171,183
<b>Income before Minority Interest and Extraordinary Items</b>	<b>206,055</b>	<b>183,706</b>
Minority Interest	6,080	7,312
<b>Income before Extraordinary Items</b>	<b>199,975</b>	<b>176,394</b>
Extraordinary Items		
Interest on income tax re-assessments (Note 11)	5,396	—
Exchange on repayment of long term debt	—	(908)
<b>Net Income</b>	<b>205,371</b>	<b>175,486</b>
Dividends on Preferred Shares	14,020	13,079
<b>Net Income Applicable to Common Shares</b>	<b>\$ 191,351</b>	<b>\$ 162,407</b>
<b>Earnings per common share</b>		
– before extraordinary items	\$5.04	\$4.44
– after extraordinary items	\$5.18	\$4.41
<b>Assuming full conversion of convertible preferred shares</b>		
– before extraordinary items	\$4.86	\$4.32
– after extraordinary items	\$4.99	\$4.30



## Consolidated Balance Sheet

### Assets

	(thousands of dollars)	
	December 31, 1973	December 31, 1972
<b>Telephone Property</b>		
Buildings, plant and equipment—at cost	\$ 5,558,143	\$ 5,103,452
Less: Accumulated depreciation	1,610,936	1,447,509
	3,947,207	3,655,943
Land, and plant under construction—at cost	268,287	205,381
	4,215,494	3,861,324
<b>Other Property</b>		
Buildings, plant and equipment—at cost	285,313	260,368
Less: Accumulated depreciation	154,026	140,136
	131,287	120,232
Land	6,400	3,604
	137,687	123,836
<b>Total Property</b>	<b>4,353,181</b>	<b>3,985,160</b>
<b>Investments—at cost (Note 4)</b>	<b>19,607</b>	<b>17,843</b>
<b>Current Assets</b>		
Cash and temporary cash investments	163,767	109,980
Accounts receivable	255,819	226,019
Inventories (Note 5)	260,470	175,165
Prepayments	27,034	24,603
Deferred income taxes (Note 11)	11,339	8,064
	718,429	543,831
<b>Deferred Charges</b>		
Unamortized long term debt expenses	17,548	15,585
Unamortized excess of cost of investments in subsidiary companies (Note 1)	4,036	321
Other	25,887	18,650
	47,471	34,556
	<b>\$ 5,138,688</b>	<b>\$ 4,581,390</b>

On behalf of the Board of Directors:

Herbert H. Lank, Director  
Lucien G. Rolland, Director



Liabilities and Shareholders' Equity

	(thousands of dollars)	
	December 31, 1973	December 31, 1972
Shareholders' Equity		
Capital stock – \$3.20 Preferred (Note 6)	\$ 93,991	\$ 93,994
– \$3.34 Preferred (Note 6)	103,997	103,997
– \$2.25 Preferred (Note 6)	51,000	—
– Common (Note 6)	925,011	921,784
Premium on capital stock (Note 7)	378,385	376,879
Contributed surplus (Note 8)	15,883	7,357
Retained earnings	449,043	364,172
	2,017,310	1,868,183
Minority Interest in Subsidiary Companies		
Preferred shares	33,035	33,366
Common shares	107,154	76,203
	140,189	109,569
Long Term Debt (Note 9)	2,080,231	1,904,001
Notes Payable (Note 10)	13,277	24,272
Current Liabilities		
Bank advances	27,162	16,282
Accounts payable	208,646	149,861
Advance billing for service	25,593	23,131
Dividends payable	29,776	27,603
Taxes accrued	36,180	15,052
Interest accrued	34,426	30,848
	361,783	262,777
Deferred Credits		
Income taxes (Note 11)	511,511	399,266
Unamortized investment tax credit (Note 12)	11,713	9,834
Employees' savings plans (Note 13)	2,674	3,488
	525,898	412,588
	\$ 5,138,688	\$ 4,581,390

G.L. Henthorn, Vice-President & Comptroller



## Consolidated Statement of Retained Earnings

	(thousands of dollars)	
	Year 1973	Year 1972
Balance at Beginning of Year.....	\$ 364,172	\$ 300,735
Net income.....	205,371	175,486
	<u>569,543</u>	<u>476,221</u>
Deduct:		
Dividends – Preferred shares.....	14,020	13,079
– Common shares.....	105,268	97,541
Expenses of issue of capital stock.....	1,212	1,429
	<u>120,500</u>	<u>112,049</u>
Balance at End of Year.....	<u>\$ 449,043</u>	<u>\$ 364,172</u>



## Consolidated Statement of Changes in Financial Position

	(thousands of dollars)	
	Year 1973	Year 1972
<b>Source of Funds</b>		
Operations		
Income before extraordinary items	\$ 199,975	\$ 176,394
Items not requiring current funds:		
Depreciation	311,704	274,391
Deferred income taxes (Note 11)	89,847	84,425
Other (net)	1,895	2,826
	603,421	538,036
Extraordinary items (Note 11)	5,396	—
Deferred income taxes – prior periods (Note 11)	22,398	29,405
Proceeds from long term debt	215,154	156,157
Proceeds from preferred shares	49,788	—
Proceeds from issues of shares of subsidiaries to minority shareholders	40,984	24,442
Decrease in working capital	—	5,525
Miscellaneous	8,946	15,097
	<u>\$ 946,087</u>	<u>\$ 768,662</u>
<b>Disposition of Funds</b>		
Construction expenditures		
Gross construction expenditures	\$ 693,461	\$ 606,311
Deduct: charges to construction not requiring funds (Note 3)	21,690	19,237
	671,771	587,074
Dividends paid by the Company	119,288	110,620
Dividends paid by subsidiaries to minority shareholders	6,839	5,852
Repayment of long term debt	41,411	49,804
Repayment of notes payable (net)	10,995	3,189
Acquisition of investments	2,958	4,711
Increase in working capital	75,592	—
Miscellaneous	17,233	7,412
	<u>\$ 946,087</u>	<u>\$ 768,662</u>



## Summarized Income Statement – Non-Consolidated (Note 1)

	(thousands of dollars)	
	Year 1973	Year 1972
<b>Operating Revenues</b>		
Local service	\$ 698,082	\$ 629,701
Long distance service	552,109	464,905
Miscellaneous (net)	25,013	30,810
	<u>1,275,204</u>	<u>1,125,416</u>
<b>Operating Expenses</b>		
Depreciation	257,096	228,033
Maintenance	212,720	193,435
Traffic	73,345	66,482
Marketing and commercial	72,365	69,506
Other	185,714	155,078
	<u>801,240</u>	<u>712,534</u>
<b>Net Operating Revenues</b>	<u>473,964</u>	<u>412,882</u>
<b>Operating Taxes</b>		
Income taxes	149,759	126,808
Other taxes	74,748	53,880
	<u>224,507</u>	<u>180,688</u>
<b>Operating Income</b>	<u>249,457</u>	<u>232,194</u>
<b>Other Income</b>	<u>39,278</u>	<u>32,203</u>
<b>Total Income before Interest Charges and Extraordinary Items</b>	<u>288,735</u>	<u>264,397</u>
<b>Interest Charges</b>	<u>113,225</u>	<u>98,701</u>
<b>Income before Extraordinary Items</b>	<u>175,510</u>	<u>165,696</u>
<b>Extraordinary Items</b>	<u>5,396</u>	<u>(908)</u>
<b>Net Income</b>	<u>180,906</u>	<u>164,788</u>
<b>Dividends on Preferred Shares</b>	<u>14,020</u>	<u>13,079</u>
<b>Net Income Applicable to Common Shares</b>	<u>\$ 166,886</u>	<u>\$ 151,709</u>
<b>Earnings per common share</b>		
– before extraordinary items	\$4.37	\$4.15
– after extraordinary items	\$4.52	\$4.12
<b>Assuming full conversion of convertible preferred shares</b>		
– before extraordinary items	\$4.26	\$4.06
– after extraordinary items	\$4.40	\$4.04



## Summarized Balance Sheet – Non-Consolidated (Note 1)

	(thousands of dollars)	
	December 31, 1973	December 31, 1972
<b>Assets</b>		
Telephone Property		
Buildings, plant and equipment – at cost	\$ 4,869,512	\$ 4,488,281
Less: Accumulated depreciation	1,417,700	1,276,996
	3,451,812	3,211,285
Land, and plant under construction – at cost	232,513	189,176
	3,684,325	3,400,461
Investments in Subsidiary and Other Companies – at cost	319,674	318,199
Current Assets	344,356	267,589
Deferred Charges	34,195	28,167
	<u>\$ 4,382,550</u>	<u>\$ 4,014,416</u>
<b>Liabilities and Shareholders' Equity</b>		
Shareholders' Equity		
Capital stock		
Preferred shares	\$ 248,988	\$ 197,991
Common shares	925,011	921,784
Premium on capital stock	378,385	376,879
Retained earnings	402,415	342,009
	1,954,799	1,838,663
Long Term Debt	1,772,238	1,652,238
Notes Payable	—	10,000
Current Liabilities	222,030	178,977
Deferred Credits		
Income taxes	419,143	322,162
Other	14,340	12,376
	433,483	334,538
	<u>\$ 4,382,550</u>	<u>\$ 4,014,416</u>



## Notes to Financial Statements

### 1. Basis of statement presentation

The 1973 financial statements are presented on a consolidated basis in conformity with the new recommendations of the Canadian Institute of Chartered Accountants. The 1972 figures have been restated on a comparable basis. The accounts of all companies in which Bell Canada owns more than 50% of the outstanding common shares have been included in the consolidated financial statements. These companies are:

Northern Electric Company, Limited.....	90.1 %
Bell-Northern Research Ltd.....	100 %
(51% by Bell Canada and 49% by Northern Electric Company, Limited)	
The New Brunswick Telephone Company, Limited.....	50.1 %
Northern Telephone Limited.....	98.3 %
Newfoundland Telephone Company Limited.....	99.8 %
Télébec Ltée.....	100 %
Lièvre Valley Telephone Company.....	100 %
The Capital Telephone Company Limited.....	100 %
Telontario Incorporated.....	100 %
The North American Telegraph Company.....	100 %
*Maritime Telegraph and Telephone Company, Limited.....	51.8 %

\*Maritime Telegraph and Telephone Company, Limited has been included because Bell Canada owns more than 50% of the outstanding common shares. However, the Act of Incorporation of Maritime (as amended in 1966) provides that no more than one thousand shares may be voted by any one shareholder.

Telephone equipment, apparatus and material purchased by Bell Canada and its subsidiary telephone companies from Northern Electric Company, Limited and its subsidiaries are reflected in the consolidated balance sheet at cost to the purchasing companies, and in the consolidated income statement are included in Sales – Manufacturing and distributing. To the extent that any income on these sales by Northern Electric Company, Limited, has not been offset by depreciation or other operating charges, it remains in consolidated retained earnings and consolidated income. All other significant inter-company transactions have been eliminated in the accompanying consolidated financial statements.

The excess of the cost of shares in the above companies or their subsidiaries over the Company's equity at the dates of their acquisition is being amortized to earnings over periods not exceeding forty years. This practice has been followed since 1970. Previously it was charged to Retained Earnings in the year of acquisition. In 1973, the amortization amounted to \$211,000 (\$133,000 for 1972).

The Company's summarized income statement and balance sheet, on a non-consolidated basis, are presented on pages 14 and 15.



## 2. Depreciation

Depreciation is computed on the straight line method using rates based on the estimated useful lives of the assets. Depreciation expense was \$311,704,000 in 1973 (\$274,391,000 – 1972).

## 3. Other Income

Other income, less miscellaneous income charges, includes investment income of \$11,983,000 (\$4,105,000 – 1972) and interest charged to construction of \$11,268,000 (\$10,756,000 – 1972). The latter item is also included in the item "charges to construction not requiring funds" in the statement of changes in financial position.

## 4. Investments

Principally cost of the investments in common shares of Telesat Canada by the Company (\$14,757,000), and by certain of its subsidiaries (\$1,896,000).

## 5. Inventories

Inventories held by the manufacturing and distributing subsidiaries amounting to \$177,295,000 at December 31, 1973 (\$112,545,000 – 1972) are valued at the lower of cost and net realizable value, except for copper in raw materials and work-in-process which is valued on the base-stock method.

Material and supplies held by the telephone companies are valued principally at cost.

## 6. Capital stock

### Authorized

By charter – \$1,750,000,000 divided into common shares of the par value of \$25 each, and into preferred shares.

By shareholders – \$1,750,000,000 divided into common shares of the par value of \$25 each and: (a) not more than 4,000,000 of a class of preferred shares to a maximum aggregate amount of \$100,000,000; (b) not more than 9,000,000 of another class of preferred shares to a maximum aggregate amount of \$225,000,000; and (c) not more than 12,000,000 of another class of preferred shares to a maximum aggregate amount of \$300,000,000.

### Outstanding

#### Preferred shares

##### Cumulative, Redeemable, Convertible and Voting

1,999,813 – \$3.20 Shares of  
\$47 par value..... \$ 93,991,000  
1,999,950 – \$3.34 Shares, Class B,  
Series B, of \$52 par value..... \$103,997,000

##### Cumulative, Redeemable and Voting

1,700,000 – \$2.25 Shares, Class B,  
Series C, of \$30 par value..... \$ 51,000,000

#### Common shares

37,000,426 shares of \$25 par value \$925,011,000

The \$3.20 Preferred Shares are not redeemable prior to February 1, 1976, but may be thereafter at \$47 plus a premium of \$3.00 diminishing \$0.50 at the end of each subsequent year to February 1, 1982, and thereafter at \$47. Each \$3.20 Preferred Share may be converted into one common share on or before February 1, 1982, and 1,999,813 common shares have been reserved for this purpose.

The \$3.34 Preferred Shares, Class B, Series B, are not redeemable prior to August 1, 1977, but may be thereafter at \$52 plus a premium of \$3.00 diminishing \$0.50 at the end of each subsequent year to August 1, 1983, and thereafter at \$52. Each \$3.34 Preferred Share, Class B, Series B, may be converted into one common share on or before August 1, 1983, and 1,999,950 common shares have been reserved for this purpose.

The \$2.25 Preferred Shares, Class B, Series C, are not redeemable prior to October 1, 1983, but may be thereafter at \$30 plus a premium of \$1.50 diminishing \$0.375 at the end of each subsequent five years to October 1, 2003 and thereafter at \$30.

At December 31, 1973, 53,926 common shares have been reserved for the Employees' Savings Plan.

During 1973, 1,700,000 \$2.25 Preferred Shares and 128,998 common shares were issued for cash, and 58 common shares were issued upon conversion of \$3.20 Preferred Shares.

## 7. Premium on capital stock

	1973	1972
Balance at beginning of year.....	\$376,879,000	\$375,264,000
Premium on common shares issued during the year.....	1,506,000	1,615,000
Balance at end of year	<u>\$378,385,000</u>	<u>\$376,879,000</u>

## 8. Contributed surplus

	1973	1972
Balance at beginning of year.....	\$ 7,357,000	\$ 7,357,000
Net gain arising on consolidation from the issues of shares by subsidiaries.....	8,526,000	—
Balance at end of year	<u>\$ 15,883,000</u>	<u>\$ 7,357,000</u>



## 9. Long term debt

Bell Canada:

First Mortgage Bonds (secured by a first mortgage and a floating charge)

Maturity Date	Rate of Interest	Series	Outstanding
April 1, 1974	6¼ %	S	\$ 25,000,000
June 1, 1975	3% %	G	40,000,000
May 1, 1976	3½ %	I	40,000,000
March 1, 1977	3 %	E	35,000,000
May 1, 1977	8 %	AN	54,749,000 b)
January 2, 1978	6¼ %	R	35,000,000
November 1, 1978	7% %	AK	10,000,000
November 15, 1978	7½ %	AU	25,000,000
May 15, 1979	3¼ %	K	40,000,000
December 1, 1979	9% %	AR	25,000,000
July 2, 1980	5¼ %	Q	30,000,000
August 1, 1980	8 %	AX	32,000,000
April 1, 1981	6 %	AC	13,500,000
May 1, 1981	7% %	BC	15,000,000
June 1, 1981	4 %	M	24,000,000
January 2, 1982	5½ %	V	40,000,000
August 2, 1982	5% %	T	50,000,000
March 15, 1983	4¼ %	P	50,000,000 a)
June 15, 1984	5½ %	W	30,000,000
October 1, 1984	5% %	Y	30,000,000
August 1, 1985-1997	8% %	AZ	26,000,000 d)
January 2, 1986	6 %	U	35,000,000
July 15, 1987	6% %	AE	35,000,000
May 1, 1988	4% %	X	50,000,000 a)
November 1, 1988	6¼ %	AH	50,000,000
January 15, 1989	9 %	AP	30,000,000 c)
October 1, 1989	4.80 %	Z	50,000,000 a)
February 1, 1990	6% %	AG	30,000,000
May 1, 1990	8¼ %	AO	251,000 b)
August 14, 1990	9% %	AQ	50,000,000
April 1, 1991	6 %	AD	26,500,000
November 1, 1991	7% %	AL	30,000,000
March 15, 1992	8 %	AT	65,000,000
September 15, 1992	6¼ %	AI	45,000,000
April 14, 1993	8 %	AW	50,000,000
August 1, 1993	8% %	AY	42,000,000
December 1, 1993	9% %	AS	35,000,000
April 1, 1994-2003	7% %	BB	40,000,000 a,e)
May 1, 1994	8% %	BD	50,000,000
November 15, 1994	8 %	AV	65,000,000
September 1, 1995	4.85 %	AA	50,000,000 a)
December 1, 1995	4.85 %	AB	28,000,000 a)
October 14, 1996	6 %	AF	44,000,000 a)
February 1, 1997	8 %	BA	50,000,000
December 1, 1997	6.60 %	AJ	51,000,000 a)
September 17, 1998	6.90 %	AM	75,000,000 a)
			\$1,747,000,000
Exchange premium less discount, at time of issue, of bonds payable in United States funds			25,238,000 f)
Total - Bell Canada			\$1,772,238,000

a) Payable in United States funds.

b) Series AN Bonds are exchangeable at the option of the holders on any interest payment date from November 1, 1970 to and including November 1, 1975 for First Mortgage 8¼% Bonds, Series AO, to mature May 1, 1990.

c) The holder of any Series AP Bond will have the right to elect after July 15, 1974, and prior to July 15, 1975 that the Company shall prepay the principal amount of such Bond on January 15, 1976.

- d) Series AZ Bonds mature \$2,000,000 per annum on August 1 in each of the years 1985 to 1997 inclusive.
- e) Series BB Bonds mature \$4,000,000 U.S. per annum on April 1 in each of the years 1994 to 2003 inclusive.
- f) Based on the exchange rate at December 31, 1973 this premium would be changed to a discount of \$1,752,000.

Northern Electric Company, Limited (Consolidated)	\$ 74,125,000
The New Brunswick Telephone Company, Limited	65,000,000
Northern Telephone Limited (Consolidated)	20,835,000
Newfoundland Telephone Company Limited	43,304,000
Télébec Ltée	479,000
Maritime Telegraph and Telephone Company, Limited (Consolidated)	104,250,000
Total - (Consolidated)	\$2,080,231,000

At December 31, 1973, the amount of long term debt payable, including sinking fund requirements, by the Company and its subsidiaries, in 1974 is \$32,127,000; in 1975, \$49,425,000; in 1976, \$57,259,000; in 1977, \$104,223,000; and in 1978, \$80,930,000.

## 10. Notes payable (for interim financing)

	1973	1972
Promissory notes of the Company	\$ —	\$ 10,000,000
Bank loans of subsidiaries	13,277,000	14,272,000
	<u>\$ 13,277,000</u>	<u>\$ 24,272,000</u>

## 11. Deferred credits - Income taxes

The Company and all subsidiary companies, except Newfoundland Telephone Company Limited, use the tax allocation basis of accounting for income taxes. To comply with an Order of the Board of Commissioners of Public Utilities of the Province of Newfoundland, that company used the tax payable basis for all timing differences up to and including 1972. For 1973, the Board approved the use of the tax allocation basis for items other than capital cost allowances claimed in excess of booked depreciation.

Reductions in income taxes relating to losses carried forward in subsidiary companies are not taken up in the accounts until the date of realization is determined.

Deferred credits - Income taxes result principally from depreciation deducted for tax purposes being in excess of that included in operating expenses. In conformity with the recommended practices of the Canadian Institute of Chartered Accountants, the Company has consistently followed tax allocation procedures with respect to depreciation. In 1969, Bell Canada adopted tax allocation procedures for other items in accordance with the current recommendations of the Institute. Under the provisions of this recommendation no retroactive adjustment to the accounts is required for accumulated deferred taxes on such other items, the total amount of which adjustment at December 31, 1973 would be approximately \$34,000,000.

In 1973, the Deferred credits – Income taxes increased by \$112,245,000 of which \$22,398,000, applicable to Bell Canada, was due to Federal and Province of Ontario re-assessments of income taxes for the years 1964 to 1969 inclusive. These re-assessments resulted from claiming for income tax purposes certain additional expenditures in excess of those included in operating expenses for the respective years. In addition, interest of \$11,014,000 has been included in the re-assessments and has been reported as an extraordinary income item of \$5,396,000 (after income taxes) in the income statement.

## 12. Unamortized investment tax credit

The Ontario Corporations Tax Act provided for a credit against income taxes levied by that Province equal to 5% of expenditures for machinery and equipment purchased after April 26, 1971 and put in place and used in Ontario by March 31, 1973.

This investment credit has been deferred and is being amortized by credits to income, as a reduction of income taxes, over the average estimated service life of telephone plant. The amortization in 1973 amounted to \$688,000 leaving an unamortized balance of \$11,713,000 as at December 31, 1973.

## 13. Deferred credits – Employees' savings plans

At December 31, 1973, deposits received from employees of the Company and of certain subsidiaries, plus interest, for the purchase of common shares of Bell Canada under the Employees' Savings Plan (1966) amounted to \$2,627,000 and deposits under the Employees' Stock Plans of The New Brunswick Telephone Company, Limited and of Maritime Telegraph & Telephone Company, Limited amounted to \$47,000.

Since July 1, 1970, purchases of Bell Canada common shares are being made on the market throughout each month of the Plan year with deposits received from employees and Company contributions under the terms of the Employees' Savings Plan (1970).

## 14. Pension plans

The amount of the unfunded pension liability of the Company and its subsidiaries was \$187,415,000 at December 31, 1973. It is being funded by regular payments over the periods shown below. In all cases, these payments are being charged against operations in the years in which they are made.

	Last Actuarial Valuation	Unfunded Liability *	Remaining Period
Bell Canada .....	Dec. 31, 1972	\$120,443,000	19 years
Northern Electric Company, Limited and subsidiary companies .....	Dec. 31, 1972	52,899,000	24 years
The New Brunswick Telephone Company, Limited .....	Dec. 31, 1968	1,813,000	10 years
Newfoundland Telephone Company Limited .....	Dec. 31, 1972	1,241,000	11 years
Northern Telephone Limited .....	Dec. 31, 1972	83,000	13 years
Bell-Northern Research Ltd. ....	Jan. 1, 1972	1,763,000	16 years
Tele-Direct Ltd. ....	July 31, 1971	2,458,000	16 years
Télébec Ltée .....	Jan. 1, 1972	407,000	18 years
Maritime Telegraph and Telephone Company, Limited .....	Dec. 31, 1970	6,308,000	22 years
		<u>\$187,415,000</u>	

\*Based on the last actuarial valuation less payments to December 31, 1973.

## 15. Remuneration of directors and officers

During the year 1973, the Company's shareholders were served by 24 directors. As such, their aggregate remuneration from Bell Canada was \$171,000. Certain of them served also as directors of Northern Electric Company, Limited, a subsidiary company; as such their aggregate remuneration was \$28,000 from that company.

The Company had 34 officers during 1973, and their aggregate remuneration as officers was \$2,259,000. Three of the officers served also as directors of the Company.

## 16. Commitments

- Material contractual obligations in respect of long term leases, covering building space, amounted to \$184,380,000 at December 31, 1973. Related rentals incurred for the year 1973 amounted to \$8,969,000 and the minimum amount



applicable to the next five years is \$48,699,000 of which \$9,589,000 is applicable to the year 1974.

The Company has agreed to purchase a mortgage for a sum not to exceed \$37,106,000 in the event of mortgage payment default by the owner of a building. In such event the lease commitments of \$184,380,000 will be reduced by approximately \$78,209,000.

- b) The Company and some of its subsidiaries have executed agreements with Telesat Canada for the supply to the Company of certain satellite telecommunication services for a period of five years terminating in January, 1978. On December 31, 1973, the maximum obligation under these agreements amounted to \$36,055,000, subject to reduction in the event that any part of the said services should be unavailable in accordance with the terms of these agreements.

#### 17. Microsystems International Limited Canadian Government Conditional Grants

Microsystems International Limited is 68.5% owned by Northern Electric Company, Limited. Under agreements between the Canadian Government and Microsystems for conditional grants, \$30,116,000 had been recorded as claims for certain research and development, preproduction and capital expenditures to December 31, 1973. Microsystems may claim additional grants totalling \$487,000 for research and development expenditures and \$5,347,000 in respect of capital expenditures. Should the cumulative earnings of Microsystems (after deduction of losses) before income taxes on semiconductor products, except discrete components, be in excess of 10% of the cumulative sales of such products, then these grants will be repayable, without interest, from the cumulative earnings in excess of 10% of such sales. Such grants are not reflected as a liability in the consolidated financial statements.

#### 18. Applications for rate increases

On November 10, 1972, the Company filed two applications ("A" and "B") with the Canadian Transport Commission for authority to increase rates and charges for most of its services, equipment and facilities. Increases in rates resulting from Application "A" became effective July 3, 1973. On August 16, 1973, the Company filed Amended Application "B". The hearing on Amended Application "B" commenced February 4, 1974.

## Auditors' Report

The Shareholders,  
Bell Canada.

We have examined the consolidated balance sheet of Bell Canada and subsidiary companies as at December 31, 1973 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. For Bell Canada and those subsidiaries of which we are the auditors, our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. With respect to those subsidiaries of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to accept for purposes of consolidation the reports of the other auditors.

In our opinion these consolidated financial statements present fairly the financial position of the Company and its subsidiaries as at December 31, 1973 and the results of their operations and the changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year as restated.

Touche Ross & Co.  
Chartered Accountants.

Montreal, Que.,  
February 27, 1974.

#### Bell Canada - Non-Consolidated Benefits and Pensions

Under the Plan for Employees' Pensions, Disability Benefits and Death Benefits

Year 1973	
Sickness Benefits.....	\$3,221,891
Accident Benefits.....	285,544
Death Benefits.....	1,028,316
Disability Pensions.....	271,403

The Company has established a fund with the Royal Trust Company, Montreal, as Trustee. This fund is irrevocably devoted to service and deferred pension purposes. Under an accrual program based on actuarial studies, regular payments are made to the fund by the Company and amounted to \$30,983,723 in the year 1973. The amount in the fund fully provides for future payments to those now on the pension rolls and those now entitled to retire on service pension at their own request, or to a deferred pension. The fund is not a part of the assets of the Company and is, therefore, not reflected in the balance sheet.

## Corporate Information

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### Bell Canada

1050 Beaver Hall Hill  
Montreal, Quebec  
H3C 3G4

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### 1974 Annual Meeting

The Annual and Special General Meeting of the Shareholders will take place at 2:00 p.m., Tuesday, April 9, 1974 in Le Grand Salon, Queen Elizabeth Hotel, 900 Dorchester Boulevard West, Montreal, Quebec

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### Listing of Stock

Montreal Stock Exchange  
The Toronto Stock Exchange  
Vancouver Stock Exchange

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### Transfer Offices for Stock

#### Company Offices –

1050 Beaver Hall Hill  
Montreal  
10 King St. East  
Toronto

#### The Royal Trust Company

St. John's, Nfld.; Halifax;  
Charlottetown; Saint John, N.B.;  
Winnipeg; Regina; Calgary;  
Vancouver

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### Registrar for Stock

#### Montreal Trust Company

Montreal; Toronto;  
St. John's, Nfld.; Halifax;  
Charlottetown; Saint John, N.B.;  
Winnipeg; Regina; Calgary;  
Vancouver

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### Trustee for Bonds

The Royal Trust Company  
Montreal

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### Transfer Offices for Bonds

#### The Royal Trust Company

Montreal; Toronto;  
St. John's, Nfld.; Halifax;  
Charlottetown; Saint John, N.B.;  
Winnipeg; Regina; Calgary;  
Vancouver



## Statistical Summary

Consolidated Data	1973	1972	1971
<b>Income Statement Items (thousands of dollars)</b>			
Operating revenues.....	\$1,487,808	\$1,301,058	\$1,156,707
Sales—Manufacturing and distributing.....	613,772	535,025	577,401
Income before extraordinary items.....	199,975	176,394	151,230
Net income.....	205,371	175,486	151,230
Preferred dividends.....	14,020	13,079	9,350
Net income applicable to common shares.....	191,351	162,407	141,880
<b>Balance Sheet Items (thousands of dollars)</b>			
Total property—net*.....	\$4,353,181	\$3,985,160	\$3,670,274
Preferred equity*.....	248,988	197,991	197,997
Common equity*.....	1,768,322	1,670,192	1,601,924
Minority interest.....	140,189	109,569	83,434
Long term debt*.....	2,080,231	1,904,001	1,794,857
Construction expenditures.....	693,461	606,311	554,561
<b>Common Share Data</b>			
Earnings per common share			
before extraordinary items.....	\$5.04	\$4.44	\$3.87
after extraordinary items.....	\$5.18	\$4.41	\$3.87
Assuming full conversion of convertible preferred shares			
before extraordinary items.....	\$4.86	\$4.32	\$3.82
after extraordinary items.....	\$4.99	\$4.30	\$3.82
Dividends per common share.....	\$2.85	\$2.65	\$2.65
Equity per common share*.....	\$47.79	\$45.30	\$43.60
Average common shares outstanding (thousands).....	36,931	36,808	36,680
Per cent held in Canada*.....	96.0	95.9	95.8
Number of shareholders (including preferred)*.....	237,458	240,950	245,143
<b>Bell Canada—Non-Consolidated Data</b>			
<b>Income Statement Items (thousands of dollars)</b>			
Operating revenues.....	\$1,275,204	\$1,125,416	\$1,018,787
Operating expenses.....	801,240	712,534	639,737
Operating taxes.....	224,507	180,688	174,352
Other income.....	39,278	32,203	29,786
Interest charges.....	113,225	98,701	87,194
Income before extraordinary items.....	175,510	165,696	147,290
Net income.....	180,906	164,788	147,290
Per cent return on total capital.....	7.9	7.8	7.4
Interest in per cent of average debt.....	6.4	6.2	5.9
Times interest charges earned after taxes.....	2.6	2.7	2.7
<b>Balance Sheet Items (thousands of dollars)</b>			
Telephone property—net*.....	\$3,684,325	\$3,400,461	\$3,131,006
Investments*.....	319,674	318,199	309,391
Preferred equity*.....	248,988	197,991	197,997
Common equity*.....	1,705,811	1,640,672	1,581,674
Long term debt*.....	1,772,238	1,652,238	1,541,504
Construction expenditures.....	554,218	507,716	471,633
<b>Other Statistics</b>			
Telephones in service*.....	7,102,308	6,742,184	6,295,258
Local calls (thousands).....	9,849,738	9,464,990	8,874,925
Long distance messages (thousands).....	395,851	350,951	304,676
Number of employees*.....	43,033	40,953	39,136

\*At December 31

1970	1969
\$1,058,511	\$ 946,087
563,611	482,523
132,802	115,717
132,802	115,717
5,706	—
127,096	115,717

\$3,366,362	\$3,112,780
93,997	—
1,556,240	1,489,744
83,079	71,978
1,628,664	1,439,557
481,402	466,493

\$3.50	\$3.25
\$3.50	\$3.25
\$3.49	\$3.25
\$3.49	\$3.25
\$2.50	\$2.50
\$42.50	\$41.50
36,262	35,580
95.7	95.4
249,424	251,834

\$ 936,636	\$ 842,090
578,453	530,200
172,010	148,516
24,586	22,480
77,497	72,158
133,262	113,696
133,262	113,696

7.2	6.8
5.7	5.6
2.7	2.6

\$2,865,345	\$2,654,524
295,919	282,933
93,997	—
1,539,930	1,480,331
1,386,504	1,262,504
402,063	389,326

6,007,507	5,752,820
8,493,601	8,042,135
286,615	271,355
39,079	38,686

An Annual Statistical Report, intended for those desiring further data on our operations, is in preparation and will be available to shareholders upon a written request to:

The Treasurer  
Bell Canada  
1050 Beaver Hall Hill  
Montreal, Quebec  
H3C 3G4





**Bell Canada**

Built, managed and owned  
by Canadians



Bell Canada, part of  
**Trans-Canada  
Telephone System**



A key factor in Canada's pre-eminence in telecommunications has been the integration of research and manufacturing under the control of the major telephone company. Northern Electric's stature as a telecommunications manufacturer has taken on new dimensions. Now international in its operations, Northern creates new jobs at home each time it penetrates a new market abroad.

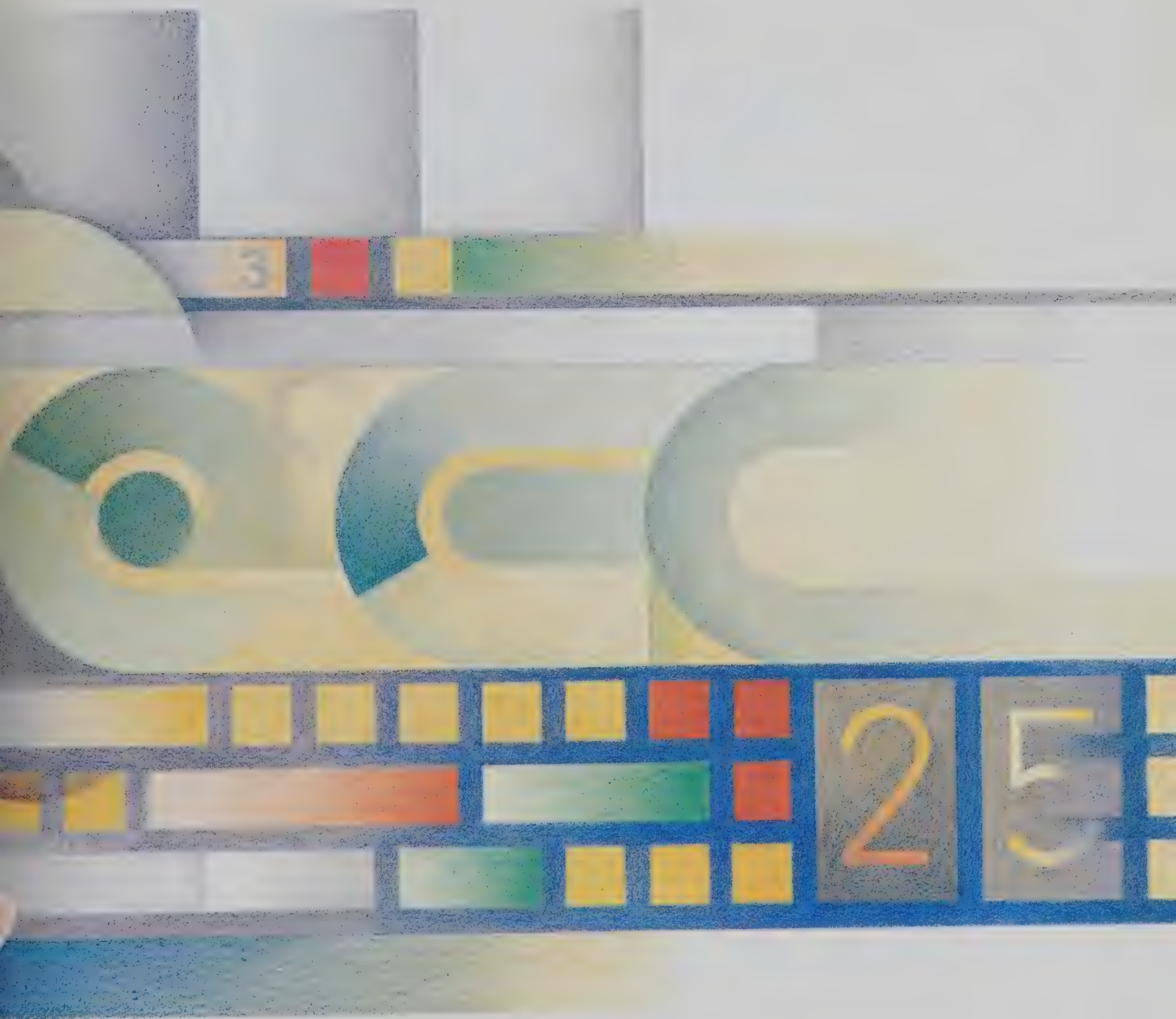




In many fields — business, education, government and industry — information has become as important a commodity as physical resources.

The information explosion has been made manageable by the marriage of telecommunications and the computer. Here again Canada's leadership has been advanced by The Computer Communications Group in developing The Dataroute, the world's first nationwide digital data transmission system.

This system operates in the language of the computer and provides a degree of economy, reliability and accuracy never before possible.









"Canada and the world have come a long way since Alexander Graham Bell invented the telephone in Brantford, Ontario on July 26, 1874.

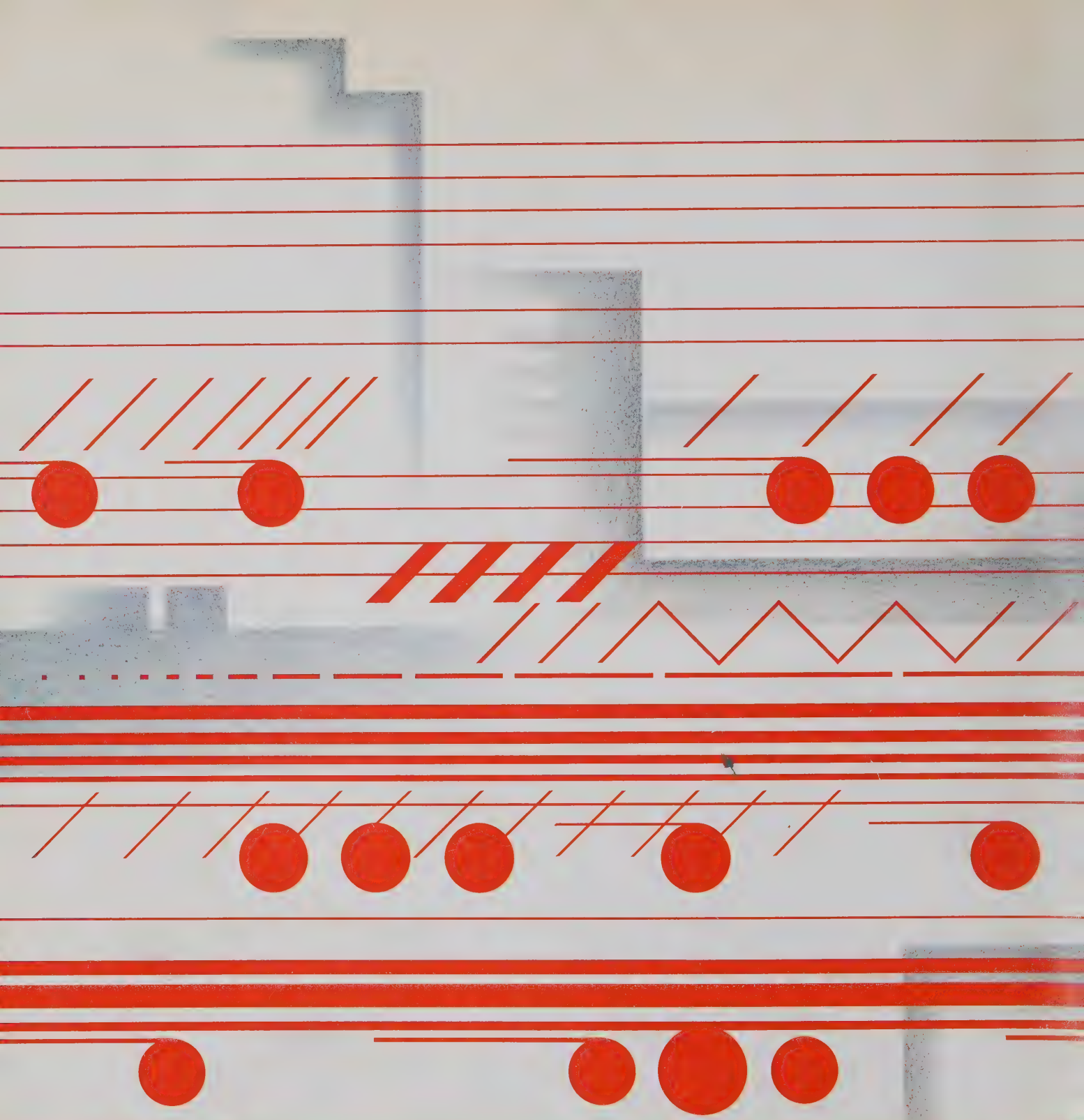
"We are proud of the way in which progress in this field has been enriched over the years by the people of Bell Canada.

"People, not machines, remain the foundation of our operations and service the keystone of our philosophy."

Robert C. Scrivener

Chairman of the Board





Printed in Canada

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AR04

Bell Canada

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**1973**  
**Year-end**  
**Report to the**  
**Shareholders**



Bell Canada's non-consolidated preliminary results for the three-month and twelve-month periods ended December 31 are presented in this report on an unaudited basis. Consolidated and audited financial statements will be contained in the Annual Report for 1973.

**Bell Canada Non-Consolidated**  
Revenues, net income and earnings per share improved in 1973, reflecting continued growth in service demand and some progress in repricing of Company services. Operating revenues for the year are expected to be \$1,275.2 million, a 13.3 per cent increase over 1972. Net income will likely amount to \$180.9 million, an increase of 9.8 per cent over the \$164.8 million earned the previous year. Earnings per common share, estimated at \$4.52, improved 9.7 per cent over the \$4.12 per share earned in 1972. Per share earnings include an extraordinary income item, amounting to 15 cents, which resulted from interest on Federal and Province of Ontario income tax reassessments applicable to prior years.

Operating revenues for the final quarter of 1973 were \$337.8 million, up \$40.5 million over the same period in 1972. Operating expenses were \$213.2 million, an increase of \$26.1 million, with the result that net operating revenues recorded a gain of \$14.5 million. This amount was reduced by \$10.5 million as a result of increases in federal, provincial and municipal taxes.

Other income in the fourth quarter was \$11.3 million as compared to \$8.4 million in 1972. The increase was due mainly to higher income from investments. Interest expense, at \$29.1 million, increased \$3.0 million over the 1972 fourth quarter figure.

An extraordinary income item of \$5.4 million, net of applicable income tax, was

realized in the final quarter and is included in the \$1.33 earnings per share recorded in the fourth quarter of 1973. As noted earlier, this extraordinary item resulted from interest amounting to \$11.0 million on Federal and Province of Ontario income tax reassessments applicable to 1964-1969.

The rate of return on total capital, before extraordinary items, is estimated at 7.9 per cent in 1973, a slight improvement over the 7.8 per cent rate recorded in 1972. Bell Canada's Amended Application "B", currently before the Canadian Transport Commission, seeks permission to increase rates in 1974 to provide additional revenues of \$51.8 million—the amount it is estimated will be needed to produce an 8.6 per cent rate of return on total capital in 1974.

**Northern Electric Company, Limited**  
As previously announced, Northern Electric completed an initial public offering of common shares from treasury. Priced to the public at \$15 per share, the issue produced \$36.8 million after underwriting expenses. Bell Canada's shareholding in Northern Electric, as a result of the issue, is now 90.1 per cent of total shares outstanding.

### **Annual Meeting**

The 94th Annual and Special General Meeting of the Shareholders will be held in Le Grand Salon, Queen Elizabeth Hotel, 900 Dorchester Boulevard West, Montreal, beginning at 2 p.m., Tuesday, April 9.

**Bell Canada—Non-Consolidated  
Interim Income Statement**

(Subject to Audit)

	(thousands of dollars)			
	Three months ended December 31		Twelve months ended December 31	
	1973	1972	1973	1972
Operating revenues	\$337,792	\$297,277	\$1,275,204	\$1,125,416
Operating expenses	213,208	187,143	801,240	712,534
Net operating revenues	124,584	110,134	473,964	412,882
Income taxes	40,397	34,121	149,759	126,808
Other taxes	18,388	14,184	74,748	53,880
Operating taxes	58,785	48,305	224,507	180,688
Operating income	65,799	61,829	249,457	232,194
Other income	11,277	8,378	39,278	32,203
Total income before interest charges and extraordinary items	77,076	70,207	288,735	264,397
Interest charges	29,141	26,129	113,225	98,701
Income before extraordinary items	47,935	44,078	175,510	165,696
Extraordinary items:				
Interest on income tax re-assessments	5,396	—	5,396	—
Exchange on repayment of long term debt	—	—	—	(908)
Net income	53,331	44,078	180,906	164,788
Dividends on preferred shares	4,210	3,270	14,020	13,079
Net income applicable to common shares	\$ 49,121	\$ 40,808	\$ 166,886	\$ 151,709
Average number of common shares outstanding (thousands)	37,000	36,871	36,931	36,808
Earnings per common share:				
before extraordinary items	\$1.18	\$1.11	\$4.37	\$4.15
after extraordinary items	\$1.33	\$1.11	\$4.52	\$4.12
Assuming full conversion of convertible preferred shares:				
before extraordinary items	\$1.15	\$1.08	\$4.26	\$4.06
after extraordinary items	\$1.28	\$1.08	\$4.40	\$4.04
Dividends per common share	\$0.71	\$0.66	\$2.85	\$2.65
Rate of return on total capital	XXX	XXX	7.9%	7.8%

G. L. Henthorn, *Vice-President & Comptroller*



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G. L. Henthorn, *Vice-President & Comptroller*



## Shareholder Questions

Of the numerous letters Bell Canada receives each year from shareholders, many contain questions and comments of interest and concern to other shareholders. With this issue of the quarterly report, we are initiating a column devoted to the Company's position on some of these questions. The column will appear, from time to time, in future quarterly reports.

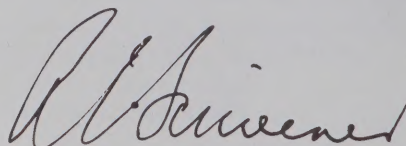
- Q. Bell's earnings and dividend rate appear favourable – yet the stock is trading at a low of around \$40 per share. Can you explain the poor performance of the stock?
- A. There is no doubt that the market price of Bell Canada common shares is affected by influences other than current earnings and dividends. Bell Canada shares are not alone in this situation, as equity markets generally have been hard hit by economic uncertainties arising from the energy crisis, the increased rate of inflation and high interest rates. More specifically, in the case of Bell Canada, concern is expressed about our ability to adjust prices promptly and adequately to reflect the impact of inflation on our costs for money, materials, personnel and taxes. We have consistently stated publicly, to shareholders and to the governments concerned, that Bell Canada must have adequate charges for its services if its earnings are to attract the capital required to continue to provide the high quality of telecommunications services generally available. We believe that the regulatory process, which is concerned with ensuring that Canadians do not suffer a diminution in the quality of service, recognizes this need as do the Federal and Provincial governments.

- Q. As a shareholder, I am opposed to Bell's proposal to charge for Directory Assistance calls. I do not consider it appropriate for the Company to spearhead a drive which is anti-social in its nature. Why doesn't Bell continue to bear this cost?

- A. The volume of Directory Assistance calls has now increased to the point that the Company is handling close to 700,000 calls on the average week day. Between 70 – 80 per cent of the requests are for numbers listed in the directory.

No charge will be made for numbers that are not listed in the directory. Nor do we propose to charge those who cannot use their directories due to physical handicap, or for calls for help in an emergency. Similarly, exemption will be made in the case of requests for Directory Assistance on long distance calls, on all calls from coin telephones, hotel and hospital rooms, where an up-to-date directory may not be available.

What is proposed is a 25 cent charge for all unnecessary calls for Directory Assistance, to be borne by the minority of those users who request such "personalized" service, rather than at the expense of the vast majority of our customers who make use of the directories provided to them.



Chairman

February 8, 1974